

**WORKING ARRANGEMENT BETWEEN EUROPEAN
COMMISSION AND EFRAG**

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This Working Arrangement sets out the scope of the work of the European Financial Reporting Advisory Group (EFRAG) and its relationship with the European Commission. It could be reviewed by both signatories after 3 years of implementation.

BACKGROUND

On 19 July 2002 the EU adopted Regulation 1606/2002 which provides that as from 1 January 2005 companies listed on a regulated market are required to prepare their consolidated accounts in accordance with a single set of accounting standards, namely International Accounting Standards now commonly referred to as International Financial Reporting Standards (IFRS).

With the encouragement of the European Commission, EFRAG was created by organisations representing preparers, users and accountancy professions involved in the financial reporting process. Through the provision of the required technical expertise it has fulfilled the important role of advising the Commission of its views on IFRS.

1- Role of EFRAG

EFRAG will provide advice to the Commission on all issues relating to the application of IFRS in the EU.

In this regard, EFRAG:

- a) Provides its opinions in order for the Commission to take a view on endorsement of any IFRS [for application in the EU] and as requested on IFRS interpretations.
- b) Provides its opinions in order for the Commission to take a view on issues related to the development and the improvement of the standards and their effective implementation in the European area.

2- EFRAG's duties

EFRAG is a body independent of the Commission and the International Accounting Standards Board (IASB).

2.1 Technical Expert Group

EFRAG maintains a Technical Expert Group (EFRAG-TEG)¹, composed of highly qualified experts. In addition, the Commission supports the further integration efforts between EFRAG and national standard setters in order to make efficient use of available know-how within the EU.

¹ EFRAG has constituted this group to be independent of the stakeholders and to carry out its work independently of each of the European organisations involved in EFRAG

EFRAG will consult the Commission before adopting a new Statement of Due Process.

2.2 Opinions in support of the process for endorsement of IFRS standards and interpretations

EFRAG-TEG's opinions will assess whether the standard to be endorsed complies with Community law and in particular, the requirements of Regulation 1606/2002 as regards understandability, relevance, reliability and comparability as well as the true and fair principle as set out in the 4th Directive 78/660 and the 7th Directive 83/349.

In supporting the process of endorsement of IFRS standards, EFRAG will issue, for each Standard or International Financial Reporting Interpretations Committee (IFRIC) Interpretation, an opinion within a maximum period of two months from notification of a request from the European Commission. Where EFRAG is unable to reach unanimous agreement on a given opinion it will transmit to the Commission the opinion which has the support of the majority as well as any written dissenting views provided in accordance with its governance rules.

Opinions will be based on a wide consultation, prior to the issue of opinions, of interested parties in the European area, in accordance with the Statement of Due Process.

In expressing its opinions, EFRAG-TEG will justify how it reached those particular conclusions. Where EFRAG-TEG members do not concur with the endorsement advice, the dissenting opinions will be set out in writing.

2.3 EFRAG-TEG's opinions on upcoming financial reporting issues

EFRAG will participate in the IASB's due process

In close consultation with the European Commission, EFRAG will participate in the early phases of debate on all issues related to the standard setting process. In such a role, EFRAG will, when requested by the European Commission attend working groups of IASB, liaise with national standard setters and hold Advisory fora.

The objectives of the work are:

- To provide reports as requested to the European Commission reflecting, particularly, European perspectives, giving reasoned opinions on upcoming financial reporting issues, and help identifying issues that need to be addressed by the IASB.
- To provide technical input on exposure drafts, possible consequences of proposed accounting solutions or proposed standards for companies operating in the European environment with the objective that the European concerns and practice are properly taken into account. EFRAG may publish its contributions.

2.4 Work programme

EFRAG publishes a work programme, regularly updated, and an annual activity report and will transmit the annual report to the Commission.

2.5 Future of EFRAG

EFRAG will secure assurance from its members that the necessary resources will be available for EFRAG to perform the tasks described in this Working Arrangement for the next three years.

EFRAG will advise the Commission at least twelve months in advance of any developments which are likely to significantly reflect on the structure of EFRAG or impact on its tasks as set out in this Working Arrangement.

3- Relationship between EFRAG and the European Commission and representation at the IASB

3.1 EFRAG will invite a European Commission observer to its Supervisory Board and to its TEG and any other group.

The chair of EFRAG-TEG and an advisor together with the Chair of the High-Level Group will be invited to the meetings of the Accounting Regulatory Committee.

3.2 The Commission will determine the Community's position on any given issue and formally communicate it to the IASB

The Commission will keep EFRAG informed of the outcome of the discussions from its bilateral meetings with the IASB.

The Commission will keep EFRAG informed of the outcome of the discussions at meetings of IFRIC. When attending such meetings, the Commission could choose to be accompanied by a suitable expert, which on occasions could be somebody from EFRAG, depending on the matter to be discussed.

EFRAG will keep the Commission informed of the outcome of the discussions from any other meetings, including working groups, between stakeholders and the IASB.

The Commission is willing to make its best efforts for an EFRAG representative to attend meetings of the IASB's Standards Advisory Council (SAC). In any event, the Commission will inform EFRAG on all relevant issues arising from SAC.

EFRAG will treat information given by the Commission on matters of public policy making as confidential.

4- The High-Level Group

The Commission intends to create a High-Level Group (the Group) composed of a small team of independent experts and high level representatives from national standard setters. These individuals will not already be personally involved in EFRAG's work.

This Group will review opinions on endorsement submitted by EFRAG to the Commission with a view to assessing whether the content is well-balanced and objective advice. The members of this Group will not participate in the actual work of EFRAG.

5- Other work by EFRAG

EFRAG may carry out, on its own initiative, other work on the understanding that EFRAG will:

- inform the Commission well in advance of any such initiative, and
- take full account of the Commission's view on the need for such an initiative, and
- consult the Commission on its work programme.

Done at Brussels on 23 March 2006